

SUBSIDY AND EXPORT: MALAYSIAN CASE

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ABSTRACT

This paper examines the long-run relationship between subsidies and export for the case of Malaysia using annual data from 1976 to 2010 and cointegration test. The results show that the subsidies significantly influence export in the long-run. This support the argument by the non-neo-classical economists' propagation that export promotion requires a pro-active government role in the economy. This study has shed some lights that subsidy may not be detrimental to an economy.

Key words: Subsidies; Export; Cointegration

1. INTRODUCTION

The posit that subsidy leads to inefficiency was never an ending debate despite the emergence of the strategic trade policy argument under new trade theory. Subsidies can be seen as government support to industry which leads to country obtaining competitive advantage. The advocates of providing subsidies or government support often base their case on the ground of externality and infant industry argument. The argument for subsidies in case of infant industry and externality are closely related. Support for infant industry is due to the existence of externality such as knowledge and labor training which can lead to economic spillover effects (Stewart and Ghani, 1991).

Collie (1991) argues that if the domestic countries pursue an optimal trade policy, then it will always benefit from a subsidy. Subsidies might be attractive policies from a domestic point of view. Spencer and Brander (1983) argue that the national governments use subsidies to help domestic firms expand their market shares in profitable areas and the governments can grant strategic advantages on domestic companies. In addition, the subsidy actually increases domestic